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FISCAL IMPACT STATEMENT

LS 7120

BILL NUMBER: SB 344

NOTE PREPARED: Feb 23, 2004

BILL AMENDED: Feb 19, 2004

SUBJECT: Property Tax Exemptions.

FIRST AUTHOR: Sen. Borst

FIRST SPONSOR: Rep. Murphy

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Main Street Exemptions:* This bill grants a property tax exemptions to nonprofit organizations engaged in the Indiana Main Street Program.

Internal Revenue Code Update: The bill provides that references to the Internal Revenue Code in Indiana law refer to the federal law as in effect on January 1, 2004. It indicates that the law that requires certain bonus depreciation allowed for federal income tax purposes to be added back for state tax purposes applies to the special depreciation allowance for 50-percent bonus depreciation property. The bill also requires that "Section 179 property" deductions in excess of \$25,000 per year that are allowed for federal income tax purposes be added back for state tax purposes.

Gary Civic Center: This bill provides that the Gary Civic Center Board of Managers may receive salaries and a per diem in addition to expense reimbursement.

Property Tax Exemptions: The bill also allows certain taxpayers to retroactively claim missed property tax exemptions.

Effective Date: January 1, 2001 (Retroactive); January 1, 2004 (Retroactive); Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues: (Revised) *Main Street Exemptions:* Additional property tax exemptions will reduce assessed value. The State levies a small tax rate for State fair and State forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Internal Revenue Code Update: This bill updates the reference to the Internal Revenue Code (IRC) to incorporate all the federal changes made up to January 1, 2004. These changes will only impact tax years beginning January 1, 2004. The update would include changes resulting from the Jobs and Growth Tax Relief Reconciliation Act of 2003 (P. L. 108-27) and the Military Family Tax Relief Act of 2003 (P. L. 108-121).

The provisions of P. L. 108-27 are not expected to result in a fiscal impact. The bill requires that in determining taxable Indiana Adjusted Gross Income (AGI), taxpayers add back: (1) the bonus first-year depreciation allowance increased from 30% to 50% under P.L. 108-27; and (2) the amount deducted above \$25,000 for Section 179 (small business) property expensing limit on which was increased from \$25,000 to \$100,000 under P. L. 108-27.

One provision of P. L. 108-121 could potentially result in a minimal fiscal impact. P. L. 108-121 creates an above-the-line deduction for travel expenses of National Guard troops and reservists, provided the travel exceeds 100 miles and requires an overnight stay. The deductible expenses may not exceed the general federal per diem rate applicable to the particular locality.

Explanation of Local Expenditures: (Revised) *Gary Civic Center:* The bill would allow the Gary Civic Center Board of Managers to pay its members a salary or per diem. They are currently reimbursed for expenses incurred while performing their duties. The fiscal impact to the Board is dependent on the rate at which a salary or per diem is set.

Explanation of Local Revenues: (Revised) *Main Street Exemptions:* This provision would provide property tax exemptions for real and personal property owned by Indiana nonprofit corporations that are recognized by the Indiana Main Street Council as being engaged in the Indiana Main Street Program. The exemption would be retroactive to property taxes payable in 2001, 2002, and 2003 and would continue prospectively beginning in 2004. Taxes paid in 2001, 2002, or 2003 would be refunded under the proposal. The taxpayers could apply for refunds upon passage of the bill.

According to the Indiana Department of Commerce, 165 Indiana communities participate in the Main Street program. The property owned by the nonprofit Indiana corporations that contribute to these programs would be exempt. The total amount of property that would be exempted by this provision is unknown. The exemption would shift the property tax burden currently borne by these corporations to all other taxpayers. For future years (after refunds for retroactive years), total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Property Tax Exemptions: (A) This bill provides that a religious institution may retroactively file for a property tax exemption on real property for property taxes payable in 2001 and 2002 if the organization (1) acquired the property in 1999, (2) the property was exempt from property tax in 2000, and (3) the organization failed to file the required exemption application for 2001 and 2002 taxes. The exemption application would be subject to review and action by the county property tax assessment board of appeals and the Department of Local Government Finance; and is subject to appeal. If an exemption application is approved, the religious institution may file a claim with the county auditor for a refund for the payment of property taxes first due and payable in 2001 and in 2002 with respect to the exempt property. One taxpayer in Evansville has been identified as meeting the conditions of this provision. The provision would exempt about \$12,000 in tax liability for each of the two years. No interest is payable on the refund. Refunds of property taxes reduce the current year property tax revenue for taxing units that provide services to the property.

(B) Another provision in the bill would allow a taxpayer in Marion County to file an amended business personal property tax return for taxes paid in 2002 in order to claim an industrial waste control facility exemption, an industrial air purification exemption, and an interstate commerce exemption for finished goods inventory to be shipped out of state. The taxpayer would also be permitted to file an application for an abatement deduction for taxes paid in 2002. The taxpayer would receive a credit against taxes due in 2004 and later years until the credit is exhausted. The county auditor could, however, refund the remaining credit at any time. One taxpayer has been identified as meeting the conditions of this provision. The credits and refunds allowed by this provision would reduce current year and future property tax revenue for taxing units that provide services to the property. This analysis will be updated when additional information regarding the amount of credits and/or refund is received.

(C) This bill provides that a religious institution may retroactively file for a property tax exemption on real property for property taxes payable in 2001, 2002, 2003, and 2004 if the organization (1) acquired the property in 2000 under contract with another religious institution, (2) the property was exempt from property tax in 2000, and (3) the organization failed to file the required exemption application for 2001, 2002, 2003, and 2004 taxes. The exemption application would be subject to review and action by the county property tax assessment board of appeals and the Department of Local Government Finance; and is subject to appeal. If an exemption application is approved, the religious institution may file a claim with the county auditor for a refund for the payment of property taxes first due and payable in 2001, 2002, 2003, and 2004 with respect to the exempt property. One taxpayer in Indianapolis has been identified as meeting the conditions of this provision. The provision would exempt about \$86,000 in tax liability over the four years. No interest is payable on the refund. Refunds of property taxes reduce the current year property tax revenue for taxing units that provide services to the property.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Local civil taxing units and school corporations; Gary Civic Center.

Information Sources:

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